

# **Exhibit 3**

## **Part 3 of 9**



**NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 1988****NOTE (1) FORMATION OF THE CORPORATION**

Al Rajhi Banking and Investment Corporation (A Saudi Joint Stock Company) was formed pursuant to the Royal Decree No. M/59 dated 3/11/1407 (Hegira). The Corporation has replaced Saleh Bin Abdul Aziz Al Rajhi and Brothers Company (Al Rajhi Company for Currency Exchange and Commerce - Commercial Registration No. 96) in accordance with Article 6 of the Council of Ministers' resolution No. 245 dated 26/10/1407H. (Note 2)

The objects of the Corporation are those of banking and investment operations in accordance with the Memorandum and Articles of Association, The Banking Control Law and the Council of Ministers' Resolution referred to above. The Corporation is engaged in banking and investment operations on its own account or on behalf of others inside and outside the Kingdom.

**NOTE (2) ACQUISITION VALUE OF ASSETS AND LIABILITIES**

A committee of four founders other than the partners of Al Rajhi Company for Currency Exchange and Commerce (under liquidation) was formed pursuant to the Council resolution referred to in note 1 (Valuation Committee) to determine, in conjunction with the partners of Al Rajhi Company for Currency Exchange and Commerce or whoever they select, the assets, liabilities, rights and obligations which would be acquired by Al Rajhi Banking and Investment Corporation in accordance with its objectives and to evaluate their fair values. Whatever would be agreed upon was to be approved by a resolution of His Excellency The Minister of Finance and National Economy, prior to the floatation of the shares of the Corporation. The resolution referred to above has also stated that the partners of Al Rajhi Company for Currency Exchange and Commerce should remain jointly responsible for all assets, liabilities, rights and obligations which are not to be transferred to Al Rajhi Banking and Investment Corporation.

In its minutes dated 1/6/1408H, the committee has determined the assets and liabilities to be acquired and the method by which their values to be determined. The transfer would be based upon the results and the balances shown in the statement of financial position as at 30/7/1408H duly approved by The Saudi Arabian Monetary Agency.

The financial position stated below shows the assets and liabilities which have been acquired pursuant to the minutes of the valuation committee dated 14/1/1409H corresponding to 27 June 1989.

**A) ASSETS**

	<b>Saudi Riyals</b>
Cash in hand and at banks	835,715,110
Islamic investments	12,595,646,684
Customers' current accounts	316,161,153
Other assets	122,893,981
Freehold land and buildings	150,184,690
Leasehold land in Buraidah	2,327,794
Furniture and equipment (other fixed assets)	47,900,000
Inventories	2,901,677
Pre-operating expenses of the new corporation	2,988,968
Affiliated companies in London and The Netherland Antilles	3,030,057
Total assets acquired	<u>14,079,750,114</u>

**B) LIABILITIES**

Overdraft accounts at banks	1,398,318,513
Customers' current accounts credit	12,856,310,227
Other liabilities	345,401,210
Total liabilities assumed	<u>14,600,029,950</u>





**C) DUE FROM PARTNERS OF AL RAJHI COMPANY FOR  
CURRENCY EXCHANGE AND COMMERCE (UNDER LIQUIDATION)  
IN RESPECT OF ASSETS AND LIABILITIES PURCHASED**

Compensation determined by the valuation committee

(520,279,836)

58,529,265

461,750,571

Balance to be settled not later than 30 June 1989

It appears from the above financial position that the amount due from partners of Al Rajhi Company for Currency Exchange and Commerce (under liquidation) is SR 520,279,836. For assets and liabilities acquired by Al Rajhi Banking and Investment Corporation, the representatives of the founders and the representative of the partners of Al Rajhi Company for Currency Exchange and Commerce (under liquidation) reviewed the corporation's claim for SR 27,515,568 against the partners' claim for SR 86,044,823 from the corporation, and considered other issues beneficial to the corporation in respect of the achievements during and after the formation period, and the set up costs paid by the partners but not charged to the corporation, and decided to settle the two claims by the corporation paying a net compensation to Al Rajhi Company for Currency Exchange and Commerce (under liquidation) of SR 58,529,265. The Saudi Arabian Monetary Agency has approved the minutes referred to above. The amount of the compensation has been charged to the expenses of the period ended 31 December 1988.

**NOTE (3) SIGNIFICANT ACCOUNTING POLICIES :**

**a. Regulations :**

The corporation, so far as concerns the preparation of the financial statements, follows the guidelines prescribed by the Saudi Arabian Monetary Agency, the Banking Control Law and the Saudi Regulations for Companies.

**b. Fiscal year :**

The fiscal year of the corporation commences on the first day of January and ends on the last day of December of every Gregorian year (Corresponding to 11 Capricorn of one year to 10 Capricorn of the following year in the Zodiac Calendar). The first fiscal year of the corporation includes the period from the date the corporation commenced its business on 19 March 1988 corresponding to 18/1408H until the end of December of the same year.

**c. Accounting Convention :**

The financial statements are prepared under the historical cost convention.

**d. Recognition of Revenues and Expenses :**

Revenues and expenses are recognized on the accrual basis.

**e. Foreign Currencies and Precious Metals :**

(i) Transactions in foreign currencies and precious metals are translated into Saudi Riyals at the approximate rates prevailing at the time of the transactions. Assets and liabilities in foreign currencies and precious metals are translated at the balance sheet date into Saudi Riyals at the rates prevailing on the date of the statement of financial position. Gains and losses arising on translation are reported in the statement of income.

(ii) Liabilities on foreign exchange contracts are translated into Saudi Riyals at the related rates of exchange prevailing on the date of the statement of financial position. Gains and losses arising are reported in the statement of income.

**f. Provision for Doubtful Accounts :**

The Corporation provides against doubtful accounts based on an appraisal of the balances receivable and investments in Murabaha. The related accounts are stated in the statement of financial position at their values net of provisions made.



**g. Depreciation and Amortization :**

The cost of the leasehold land, building and other fixed assets are depreciated and the pre-operating expenses are amortized by equal annual installments as follows

Leasehold land	38 years
Buildings	20 years
Equipment and furniture	3-10 years
Pre-operating expenses	5 years

**h. Provision for Terminal Benefits :**

The provision for terminal benefits is calculated in accordance with the Saudi Arabian Labour Law.

**i. Investments in Murabaha :**

These are stated at cost and income is recognised the accrual basis. The accrued income is included with other debit balances.

**j. Special Commissions Received :**

The special commissions received are included in the statement of financial position with other credit balances. Such commission is not reported in the statement of income but is used for charitable payments.

**k. Customers' Mudaraba Operations (Mudaraba Funds) :**

The corporation carries out Mudaraba transactions on behalf of its customers, balances of which are included in the contra accounts. The fees charged by the Corporation for managing these operations are reported in the statement of income.

**NOTE (4) RELATED PARTY TRANSACTIONS :**

a. The corporation in its ordinary course of business transacts with related parties. The following table shows the nature and value of such transactions:

		Saudi Riyals (In thousands)			
Related party	Type of transaction	Balance at beginning of the period	Movement During the period		Balance at end of the period
			Debit	Credit	
Al Rajh Company for Currency Exchange and Commerce (Under liquidation)	Current	461,751	—	—	378,821
Directors	Current	2,255	339	(51)	2,543
Directors and their affiliated companies	Murabaha	56,210	208,511	(50,183)	214,538
Companies Guaranteed by Directors	Murabaha	—	440	—	440

b. Prior to 1:8 1408H (the date of transfer and commencement of activities of the Corporation), there were outstanding guarantees and letters of credit in favour of Companies owned by some members of the board amounting to SR 210,231,741 without any deposits being lodged as security. As at 31 December 1988 the total of these balances amounted to SR 14,759,464.

There have been also letters of guarantee and credit issued to members of the Board of Directors during the fiscal period amounting to SR 36,825,549 as at 31 December 1988.